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TAGS: ETRD EFIN ECON NI ECOWAS
SUBJECT: NIGERIA'S TRADE POLICY: ECOWAS COMMON EXTERNAL TARIFF TO THE RESCUE?

¶1. Summary: Since July 2003, Nigeria's trade policy has taken a protectionist turn, with import bans imposed on various items including textiles, many consumer goods, and industrial minerals. Now Nigeria appears slowly to be implementing ECOWAS's new Common External Tariff (CET), which would harmonize the tariffs of Nigeria with those of the other ECOWAS member states and make Nigeria's trade policies more predictable. Nigeria has also abolished import bans on certain selected goods, mainly raw materials,in line with its stated intentions to implement the CET by July 2005. Nigeria's intention to start implementing the CET by July 2005 faces legislative obstacles and opposition from local manufacturers. Nevertheless, GON officials claim there is no going back on Nigeria's implementation of the CET. End summary.

From Import Bans to Tariff Bands

¶2. Nigeria's trade policy took a protectionist turn in July 2003 when the GON imposed a ban on various imports including textiles, many consumer goods, and industrial minerals such as barite, which is used in oil drilling.
In October 2004, in his presentation of the 2005 budget to the National Assembly, President Olusegun Obasanjo stated that Nigeria will implement the Economic Community of West African States' (ECOWAS) Common External Tariff (CET), with its 0, 5, 10 and 20 percent tariff "bands," by July 2005. Obasanjo added that Nigeria will rescind all import bans during the CET transition period that ends on December 31,
¶2007.

¶3. On June 9, officials of the ECOWAS Secretariat in Abuja told Embassy Economic Specialist that the GON will start implementing the CET in July, although the CET likely will not apply to all types of goods. This is because the GON has not yet formulated its list of CET exceptions that will be renegotiated under CET Types A or B classifications. (Begin note: Type A exceptions involve products whose tariff rates member states wish to harmonize with that of the ECOWAS CET's predecessor, the francophone West African Monetary Zone, over the 2005-07 transition period. Type B exceptions concern products for which member states will negotiate the level of the CET rate and that will be harmonized by the end of 2007. See paragraphs 15 and 16 for more information. End note.) The CET's formal launch by the ECOWAS heads of government, however, is no longer a prerequisite for the implementation of the CET by ECOWAS member states. (Begin note: This launch was deferred until May 2005 to coincide with the 30th anniversary of the establishment of ECOWAS because, as of January 2005, the organization had not yet received the national status reports on the CET's implementation from Nigeria and Ghana. In the end, however, ECOWAS did not inaugurate the CET during the commemoration of ECOWAS' 30th anniversary. End note.)

¶4. During a regional workshop on the CET's adoption held in Abuja on May 23, the GON delegation reaffirmed Nigeria's commitment to start implementing the CET in July 2005. The GON said it would do so with the launch of its "green book" (book of tariff rates), which it has finalized, and that it soon will submit the green book for consideration and adoption to the Federal Executive Council (i.e., the President's cabinet) and the National Assembly. The GON told the meeting that Nigeria had introduced an additional tariff of 50 percent on certain "strategic products" (in actuality, high-end goods such as luxury cars), but that this 50-percent tariff will be phased out over the 2005-07 transition period. The GON told the meeting that Nigeria's list of exceptions will be ready "soon."

¶5. At an earlier regional workshop on the adoption of the CET held in Banjul, Gambia, from March 30 to April 1, 2005, the GON delegation noted that Nigeria's CET implementation plan includes the CET's four tariff bands, with an exceptional fifth band of 50 percent. This 50-percent tariff will apply during the 2005-07 transition period to finished goods and to those items that Nigeria has no problem producing in sufficient quantity to meet domestic demand. Nigeria's delegation to the Banjul workshop said the GON will revise its list of banned items and will phase out all import bans by 2007. (Begin comment: One week later, the GON lifted its ban on some goods, mostly raw

materials for use by the furniture, textile, pharmaceutical, and agribusiness industries. End comment.)

¶6. At the Banjul workshop, Nigeria additionally signaled its intention to request Type B exceptions for raw materials on which it now charges a 2.5 percent duty, as opposed to the CET rate of 5 percent. Nigeria's delegation further indicated the GON plans to implement changes on tax rates, and that Nigeria will raise its value-added tax from 5 percent to 10 percent.

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Nigeria Likely Will Implement the CET by July
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¶7. Awudu Ahmed Gumah, regional coordinator in ECOWAS's Department of Trade and Customs Policy, on June 9 told the embassy's Economic Specialist he is confident that Nigeria will start implementing the CET by July 2005. Gumah noted, however, that this implementation might not incorporate all products because Nigeria wants to renegotiate some items but has not yet finalized its list of exceptions. According to Gumah, Sierra Leone, Guinea, and Ghana already are implementing the CET, although Ghana is doing so piecemeal and has said it will renegotiate the tariff on raw materials. He noted the ECOWAS CET on raw materials is 5 percent but that Ghana would prefer no duty whatsoever on imported raw materials.

¶8. Gumah also said the Manufacturers Association of Nigeria (MAN) had complained to the GON about the CET's treatment of raw materials, and he said discussions continue between the GON and MAN. (Begin comment: On June 10, MAN's acting Director General Jide Mike confirmed to the Lagos consulate's Economic Specialist that the two sides had not yet reached an agreement, and he said that MAN opposes the CET's adoption. End comment.)

¶9. Gumah additionally told the embassy's Economic Specialist that ECOWAS's Department of Trade and Customs Policy welcomes the renegotiation of tariffs on items that each member state believes it needs in order to aid industrial development or to prevent a significant loss of tariff revenues. Gumah said he wants the negotiations to begin as soon as possible so that the CET's harmonized implementation will begin on schedule after the 2005-07 transition period. (Begin comment: ECOWAS's member states have agreed on the CET for most of the types of goods in question. Only items that each member state needs to protect will be negotiated under Types A and B. The implementation of the common tariff on some goods will begin prior to 2007 if all ECOWAS member states agree to these tariffs. End comment.)

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"The CET Will Ruin Our Businesses," Manufacturers Say
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¶10. MAN acting Director General Jide Mike said in a January press interview that the GON's adoption of the CET would have serious implications for Nigerian manufacturers and the country's industrial development. He advocated deferring the CET's adoption until 2010 to ensure the GON has in place the necessary enabling environment, meaning infrastructure. Jide Mike told the press that Nigerian industries face infrastructural disadvantages, and that if the GON were to reduce tariffs before the necessary infrastructure were in place, this would "kill" Nigerian industries. Because of this, he urged the GON to come up with a schedule for building infrastructure. Jide Mike also emphasized that Nigeria's monetary policy, exchange rate, interest rate, and access to bank credit all remain unfavorable to domestic manufacturers. The MAN official instead recommended the GON adopt a zero duty on capital goods, including industrial machinery; a 5-percent duty on imported raw materials; a 15-percent duty on intermediate raw materials; a 100-percent duty on finished products; and import bans on goods for which Nigeria has a comparative advantage in production. Jide Mike confirmed on June 10 to AmConGen Lagos' Economic Specialist that the MAN's position on and opposition to Nigeria's adoption of the CET remain unchanged.

Comment

¶11. The GON likely will seek to implement the CET by the end of July 2005. Although the GON has finalized its "green book" on tariffs, the rates' consideration and adoption before the end of June and implementation by July 1st appear impossible. This is because the National Assembly is on a six-week recess that began May 27. The MAN's vehement opposition to the CET also is an obstacle to the measure's timely implementation in Nigeria.

¶12. Because of President Obasanjo's dexterity in overcoming obstacles and achieving his political goals, Nigeria could

adopt the CET by the end of July if Obasanjo throws his political weight behind this effort. We believe it is more likely, however, that Nigeria will make significant progress in implementing the CET by the end of 2005 -- but on a piecemeal basis.

Background on the ECOWAS CET

¶13. The ECOWAS CET regime consists of a zero duty on "social products" such as medicines, seedlings, and agricultural equipment; 5 percent on "products of basic necessity," such as raw materials, equipment, and various inputs; 10 percent on intermediate goods; and 20 percent on finished consumer goods. Member states can authorize rates differing from the common tariffs during the 2005-07 transition period for reasons such as protecting a domestic industrial sector, existing commitments made to industrial companies, loss of tariff revenues, reasons of social policy, bilateral or international commitments, and economic policy. The aforementioned exceptions apply through December 31, 2007, but otherwise the CET must be applied uniformly.

¶14. The ECOWAS Council of Ministers recognized that some countries authorizing the "exceptional" rates would prefer to make these tariffs permanent. The Council of Ministers then agreed that the member states would set permanent rates following renegotiations. In a bid to address the distinction between the renegotiated rates and the CET, ECOWAS guidelines call for two types of exceptions, Type A and Type B, which should form a key part of each member state's national report.

Type "A" and Type "B" Exceptions

¶15. Type A exceptions are tariff rates that at the start of the implementation period differ from the CET rates, and whose continued application the member state would like to maintain for at least part of the implementation period. ECOWAS expects that all Type A exceptions will have been harmonized by December 31, 2007.

¶16. Type B exceptions are tariff lines on which the member state desires negotiations to change the rate of the ECOWAS CET. All Type B exceptions also must be harmonized by December 31, 2007 -- although ECOWAS's Council of Ministers, the member states' negotiators, and other parties concerned recognize that these Type B exceptions will be difficult to harmonize even over the long term.

CAMPBELL